An Ounce of Prevention

- A5940-2U 4/89

1988-89 Edition

The tenth annual survey of security and loss prevention in the retail industry

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The IMRA is an association representing more than 750 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables.

The IMRA list of annual conferences includes:

- Annual convention
- Senior management conference
- Physical distribution and transportation conference
- Human resources and store operations conference
- Advertising conference
- Loss prevention, auditing and shortage control conference
- Financial and MIS conference
- Government affairs conference
- Store planning and design conference

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Arthur Young is an international accounting, tax, and management consulting firm with offices in 94 cities in the United States and 400 cities in 74 other countries. Through its National Retail Group, Arthur Young provides the following specialized services to the retail industry in addition to a full range of accounting and tax services:

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- UPC consulting
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- Employee and executive compensation consulting
- Merger and acquisition services
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- Productivity and customer service consulting
- Security and loss-prevention consulting and training
- Annual survey of retail EDP expenditures
- Bimonthly newsletter on a broad spectrum of current retail issues

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Customer Service
Security Guards
EAS
CLOSED CIRCUIT TV
self-teaching manuals
videotaped training
Auditing
INTERNAL CONTROLS
employee education
employee cooperation
sound policies & procedures

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The Tenth Annual Survey of Security and Loss Prevention Highlights

Poor paperwork controls. Human error. Computer glitches. Shoplifters. Dishonest employees. Last year alone, retail shrinkage cost U.S. retailers participating in this study almost $2 billion in lost sales.

Finding and correcting these problems—whether through training or apprehensions—remains one of retailing's most demanding and costly challenges.

Arthur Young has been gathering data and analyzing this complex issue for the last ten years. According to the retailers polled in this tenth annual *An Ounce of Prevention* study, shrinkage is on the rise.

In 1987 alone, survey participants' losses exceeded 2% of their combined sales, a staggering loss of over $1.8 billion—and a 5% increase over the previous year.

The information for this survey was gathered in spring/summer 1988, with a written questionnaire. It is generally based on fiscal 1987 data.

Participation was solicited from the membership of the International Mass Retail Association, which sponsored this study, and from a diversified sample of retail companies.

The study encompasses the following types of retail establishments:

- **Mass Merchants**
  Discount, general merchandise, drug and variety chains with multiple departments, central checkout and limited selling staff.
- **Department Stores**
  Multi-department retailers offering departmental checkout with highly visible selling service. This category includes specialty stores with the principal characteristics of department stores.
- **Specialty Stores**
  Few departments, central checkout and generally with 7,500 square feet or less of selling space.

Wherever the term stores is used in this report, it refers to companies, except where it clearly designates specific numbers of stores. High- and low-shrinkage were defined as follows for each retail segment:

- For mass merchants and specialty stores:
  low-shrinkage = 1.0% of sales or less;
  high-shrinkage = 2.5% of sales or more.

1987 Survey Highlights

	1987	1986*	1982	% Increase 1987 vs. 1986
Number of Participants	119	119	119	—
Sales Volume	$127.5 Billion	$108 Billion	—	18%
Shrinkage as % of Sales	2.2%	2.1%	1.7%	5
Dollars Lost	$1.8 Billion	$1.5 Billion	—	20
Loss Prevention Expenses as % of Sales	.35%	.34%	.32%	3
Average Loss Prevention Expenditures	$382,000	$348,000	—	10

*Data reported for 1986 was collected in this year's survey.

• For department stores:
low-shrinkage = 1.5% of sales or less;
high-shrinkage = 2.5% of sales or more.

Every response was reviewed for completeness and consistency to insure accurate processing and appropriate use of information. (Where multiple responses were permitted, the tables do not add up to 100%.)

After tracking this problem for an entire decade, we have been able to put together a comprehensive analysis of retailers' loss-prevention expenditures, systems and strategies. During the five year period 1982-1987, retailers:

• increased spending on loss prevention by 9%; *(See page 10)*
• and increased their usage of electronic article surveillance (EAS) systems: Today 59% of the participants said they use EAS compared to only 39% in 1982. *(See page 13)*

In addition, the survey found that:

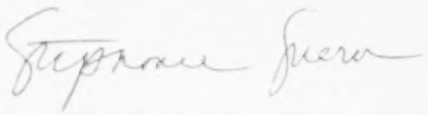
• ladies apparel was named the highest shrink department among all retailers polled. *(See page 12)*
• nearly 80% of those polled said they had point-of-sale (POS) systems in place; 52% said they had full price look-up capabilities; *(See page 14)*

This survey also profiles the apprehended thief: The apprehended shoplifter tends to be an employed male under the age of 18, while the apprehended employee tends to be over 18 and female. *(See page 16)*

Finally, an interesting profile of the head of retail loss prevention also emerged in this year's study: Today, the vast majority of these individuals are retail industry veterans; the majority of whom have spent a minimum of seven years in retailing. *(See page 17)*

We hope this study will shed some new light on this vexing and expensive problem. To help give these numbers more tangible meaning, we have included a series of case studies on loss-prevention strategies from several varying viewpoints: Ames Department Stores, Marshall Field's, Office World and Tiffany.

We would like to take this opportunity to thank the executives from these four companies for their help and participation. Their experiences and insights should be most helpful to retailers from all industry areas. We hope the text and charts that follow will prove interesting and instructive. We welcome any questions or comments you may have.



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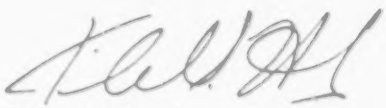

Richard I. Hersh
President
International Mass Retail Association

I. The Participants

The 119 retail companies participating in this year's survey operated more than 47,000 locations in fiscal 1987, with total sales of approximately $127.5 billion.

Of the respondents, 56 were mass merchants, with more than 33,600 store locations and aggregate 1987 sales approaching $94 billion. Twenty-two department store chains also participated, reflecting 4,284 locations and total 1987 sales hovering near $19 billion. Additionally, 41 specialty store retailers took part in the survey, representing 9,598 stores with almost $15 billion in sales. *(See Table 1)*

Sales Breakdown

The largest number of respondents—42 companies, or 35% of the survey population—posted 1987 sales ranging from $100 to $499 million. This group includes 19 mass merchants, 14 specialty chains and nine department stores.

Thirty-nine companies, 25 of which were mass merchants, reported 1987 sales over $500 million, thus forming the second largest group in the study. Next, 19 of the retailers, or 16%, reported sales ranging from $10 to $49 million, while only three companies had sales under $10 million. *(See Table 2)*

Store Count

More than half of the respondents, 53%, ran 50 or more store locations, with 27% operating at least 200 stores. Not surprisingly, mass merchants and specialty store companies average more locations than department store retailers. *(See Table 3)*

Store Location

The vast majority (73%) of this year's respondents operated at least half of their stores in suburban locations. In fact, half of the group reported that 75% or more of their stores are located in the suburbs.

By retail segment, department stores lead the other two groups in this regard with 86% reporting at least half of their stores were in

Table 1 **The Participants**

	Number of Companies	Number of Stores	Sales Volume ($ Billions)
Mass Merchants	56	33,610	$ 93.7
Department Stores	22	4,284	18.9
Specialty Stores	41	9,598	14.9
Total	119	47,492	$127.5

Table 2 **Participants' 1987 Sales Volume**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Under $10 Million	2	—	1	3
$10 - $49 Million	4	6	9	19
$50 - $99 Million	6	2	8	16
$100 - $499 Million	19	9	14	42
$500 Million and Over	25	5	9	39

suburban locations. Mass merchants followed with 72%, and specialty chains were next with 67%. *(See Table 4)*

Loss-Prevention Staffing

Fifty-eight percent of retailers' loss-prevention employees are guards/detectives, according to the companies polled.

Department store retailers lead the other two market segments in this regard, with 72% of their full-time loss-prevention employees hired as guards/detectives, compared to specialty stores with 55% and mass merchants with 50%.

At mass merchants, 31% of the positions were store level loss-prevention managers. By comparison, specialty stores reported 11% of their full-time loss-prevention staffs hold that position, and department store retailers reported 7%. *(See Table 5)*

Table 3 **Participants' Number of Stores**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
1 - 9	9%	9%	13%	10%
10 - 49	35	53	30	37
50 - 99	9	14	13	11
100 - 199	16	14	13	15
200 - 499	13	5	18	13
Over 500	18	5	13	14

Table 4 **Participants' Store Locations**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
100% Urban	8%	14%	14%	11%
1 - 49% Suburban	20	—	19	16
50 - 74% Suburban	25	24	19	23
75 - 99% Suburban	25	43	31	31
100% Suburban	22	19	17	19

Table 5 **Loss-Prevention Staffing**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Guards/Detectives	50%	72%	55%	58%
Store Level Loss-Prevention Manager	31	7	11	22
Regional Loss-Prevention Manager	3	13	6	6
Loss-Prevention Auditors	3	1	10	3
Loss-Prevention Office Staff	2	2	8	3
Loss-Prevention Training Staff	1	0	0	1
Loss-Prevention Directors/Managers	1	0	3	1
Other	9	4	7	1

II. Shrinkage Results

Dollar Estimates

According to the study, shrinkage rose approximately 5% in 1987, to 2.2% of sales from 2.1% the previous year. For the retailers polled, this amounts to an astonishing loss in 1987 of more than $1.8 billion, compared to $1.5 billion in 1986. *(See Tables 6 and 7)*

In 1987, losses due to shrinkage were highest for the specialty store retailers totaling 2.2% of their annual sales—the same percentage as in 1986.

At the mass merchants and department stores polled 1987 shrinkage rose 5% over losses reported in 1986.

From 1982 to 1987, shrinkage losses climbed steadily for all three market segments studied. Hardest hit were mass merchants who reported that shrinkage rose 40% during the five-year period. For the specialty store retailers polled, shrinkage rose 29% from 1982 to 1987. Only department store retailers were able to contain shrink fairly well: Shrinkage losses for this group rose only 5% over the five year period.

To keep these figures in perspective, note that retail systems for reporting shrinkage vary—in terms of including or excluding inventory markdowns and damages. Most retailers account for and control markdowns separately under the retail inventory method. Some, however, do not separate all markdown data, causing inflated shrinkage results.

Shrinkage Control

As a group, half of the retailers polled (50%) reported 1987 shrinkage losses reached 2% of sales or more. In contrast, only 15% indicated shrink eroded less than 1% of sales. The remainder of the retailers said annual shrinkage losses totalled between 1% and 1.9% of sales.

Department stores were hit particularly hard: Sixty-two percent of these retailers reported shrinkage losses of 2% of sales or more in 1987. Specialty store operators were also seriously hurt; 56% of this year's respondents reported losses of 2% or more of sales. Mass merchants fared the best: Only 40% of these companies fell into the high-shrink category.

Locating Employee Theft

When asked to identify the areas where they thought they were most vulnerable to employee pilferage, the greatest percentage of retailers polled named the point-of-sale. This opinion was strongest among mass merchants responding to the survey. They indicated that nearly half of the employee theft in their stores took place at the cash register.

After the point-of-sale, the respondents stated that most employee theft occurred on the selling floor (17%), stock areas (13%), receiving areas (9%), warehouse (8%) and trash areas (5%).

The responses for each market segment coincided with this general pattern. *(See Table 8)*

Table 6 **1987 Shrinkage Results by Retail Category**

Shrinkage	Mass Merchants	Department Stores	Specialty Stores	All Participants
% of 1987 Sales	2.1%	2.1%	2.2%	2.2%
% of 1986 Sales	2.0	2.0	2.2	2.1
Total 1987 Shrinkage ($ Millions)	$1,240	$364	$233	$1,837

Table 7 Shrinkage as a Percentage of Sales

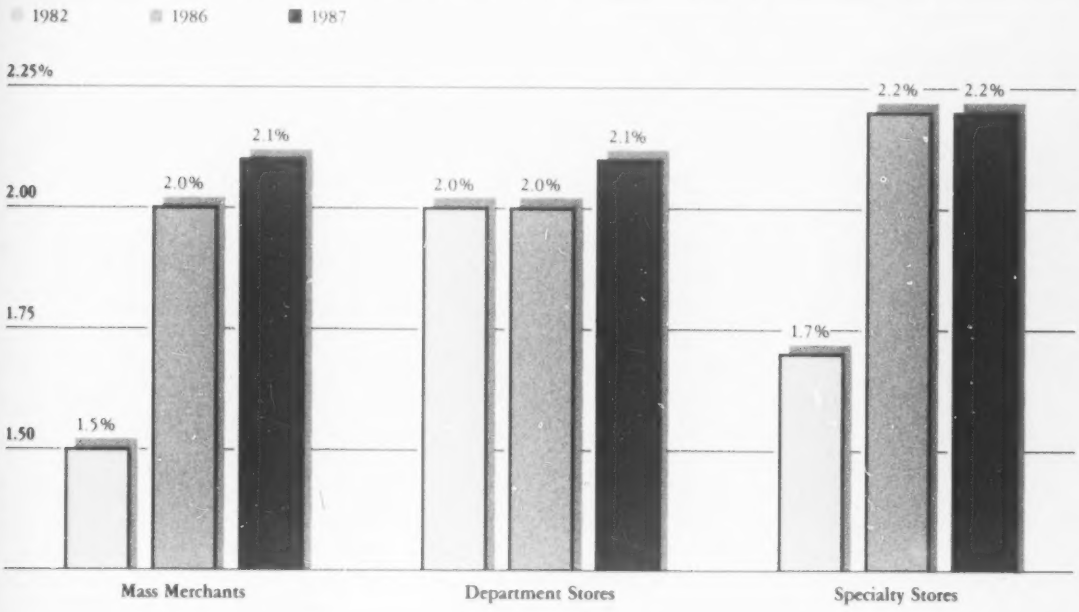

Table 8 Retailers' Opinions on Location of Employee Theft

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Point-of-Sale (Register)	49%	44%	35%	45%
Selling Floor	14	20	20	17
Stock Area	12	11	17	13
Receiving	10	10	8	9
Warehouse	7	9	9	8
Concealed in Trash	5	4	7	5
Other	3	2	4	3

III. Loss-Prevention Expenses and Capital Expenditures

For the first time this year, data for loss-prevention expenses and capital expenditures were collected and reported separately. Therefore, comparisons to previous year surveys may be misleading.

Loss-Prevention Expenses

Over the past five years, the retailers surveyed have gradually increased the amount of money they spent to combat shrink.

In 1982 average spending was .32% of sales. Since then expenses have risen steadily: to .34% in 1986 and to .35% of sales in fiscal 1987. In dollars, that translated to an overall $193 million security and loss-prevention budget last year for the retailers participating in the survey.

The mass merchants were the only group to indicate no change in loss-prevention expenses as a percent of sales from 1986 to 1987; spending was constant, at .32% of sales, for the last two years.

In comparison, the specialty store chains polled reported the greatest increase in loss-prevention expenses, from .32% in 1986 to .35% of sales in 1987.

However, the five-year spending increase among specialty store retailers was much more dramatic, jumping from .25% of sales in 1982 to .35% in 1987, a 40% increase. *(See Tables 9 and 10)*

Allocation of Expenses

Payroll expenses accounted for more than half (58%) of the participating retailers' loss-prevention expenditures.

Approximately 23% went to employee guards and detectives; 26% was spent on other payroll expenses, and 9% went to external guards and detectives.

Comparing the three market segments, 71% of the department store retailers allocated the greatest amount to payroll, followed by 66% of the mass merchants and 44% of the specialty store retailers. *(See Table 11)*

Capital Expenditures

Overall, the retailers polled increased the amount of capital expenditures devoted to security and loss-prevention purchases—from an average of $348,000 in 1986 to an average of $382,000 in 1987.

Increases were apparent in all three market segments and in all security areas. For example, specialty store retailers almost doubled the amount of capital spent on EAS equipment, from an average of $104,000 in 1986 to $191,000 in 1987.

Mass merchants allocated 57% of their capital expenditures to alarms in 1987, and only 12% to EAS equipment. Specialty stores, in contrast, spent 55% of their capital budgets on EAS and 29% on alarms. *(See Table 12)*

Table 9 **Security and Loss-Prevention Expenses—Five Year Comparison**

Loss-Prevention Expenses	Mass Merchants	Department Stores	Specialty Stores	All Participants
% of 1987 sales	.32%	.45%	.35%	.35%
% of 1986 sales	.32	.43	.32	.34
% of 1982 sales	.34	.38	.25	.32
Total 1987 Expenses ($ Thousands)	$89,446	$68,395	$35,156	$192,997

Table 10 **Loss-Prevention Expenses**

% of 1987 Sales	Mass Merchants	Department Stores	Specialty Stores	All Participants
Less than .1%	17%	19%	15%	16%
.1% - .24%	33	6	24	26
.25% - .49%	33	25	37	34
.5% or More	17	50	24	24

Table 11 **Allocation of 1987 Loss-Prevention Expenses**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Payroll for Loss-Prevention Employees*	32%	26%	23%	26%
Employee Guards/Detectives	26	41	10	23
Electronic Article Surveillance (EAS)**	6	10	19	11
External Guards/Detectives	8	4	11	9
Physical Facilities	7	4	10	8
Other Electronic Equipment**	7	7	3	6
Outside Services	5	3	6	5
Training	4	2	5	4
Incentive and Reward Programs	2	1	2	2
Other	3	2	11	6

*Other than guards/detectives
**Lease/rent/depreciation expense only

Table 12 **Capital Expenditures for Security and Loss Prevention**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Alarms	57%	33%	29%	49%
Other Electronic Equipment	29	22	12	25
Electronic Article Surveillance (EAS)	12	35	55	22
Other	2	10	4	4
Average Expenditures	$520,000	$305,000	$190,000	$382,000

IV. Shrinkage Control Policies

High-Shrinkage Departments

To develop more effective shrinkage control policies, this survey took an in-depth look at the high-shrink departments and the kinds of devices retailers use in these areas to reduce shrinkage.

According to the survey group, the three highest-shrink departments were: ladies apparel, records and tapes, and radio, TV and stereos. However, there was considerable variation among the three market segments, based largely on the type of merchandise sold.

While 86% of the department stores rated ladies apparel as the highest- or second highest-shrinkage category, only 17% of the mass merchants and 23% of the specialty store retailers did so. Mass merchants named records and tapes, followed by consumer electronics (radio, TV and stereos) and health and beauty aids as their highest-shrink departments. *(See Table 13)*

Conversely, the departments with the lowest shrink for all three market segments were: fine jewelry, men's apparel and shoes.

Security Device Usage

The five-year trend data in security device usage reveals there have been some dramatic changes in approaches to this problem.

Table 13 **Retailers Rank Highest-Shrinkage Departments**

Mass Merchants	Department Stores	Specialty Stores	All Participants
Records & Tapes	Ladies Apparel	Ladies Apparel	Ladies Apparel
Radio, TV & Stereos	Junior Apparel	Records & Tapes	Records & Tapes
Health & Beauty Aids	Fashion Accessories/ Costume Jewelry	Fashion Accessories/ Costume Jewelry	Radio, TV & Stereos

Table 14 **Retailers Rate Security Device Effectiveness**

Most Frequently Used Devices 1982	Most Frequently Used Devices 1987	Effectiveness Ranking for 1987*
Mirrors	Guards/Detectives	4
Guards/Detectives	Training Programs	1
Lock & Chain	POS Systems	3
Limited Access Areas	Lock & Chain	6
Training Programs	Limited Access Areas	6
POS Systems	Mirrors	8
Observation Booths	Electronic/Magnetic Tags	2
Electronic/Magnetic Tags	Concealed TV Monitors	5
Fitting Room Attendants	Visible TV Monitors	7
Concealed TV Monitors	Observation Booths	8
Visible TV Monitors	Fitting Room Attendants	7

*No. 1 = Device most frequently cited as "most effective."

Table 15 **Security Devices Used on Highest-Shrinkage Departments**

	Ladies Apparel	Radio, TV Phonograph	Records, Cassettes, Video Tapes	Fashion Access / Costume Jewelry	Health/Beauty Aids
Concealed TV Monitors	52%	59%	57%	52%	50%
Electronic/Magnetic Tags	62	32	29	24	24
Fitting Room Attendants	100	—	—	3	—
Guards/Detectives	60	52	56	65	57
Limited Access Areas	11	39	29	27	15
Lock and Chain	35	34	15	21	6
Mirrors	42	42	40	36	37
Observation Booths	72	51	49	53	42
Point-of-Sale Systems	52	49	48	55	41
Training Programs	54	45	48	54	45
Visible TV Monitors	33	33	37	35	30

Nevertheless, the leading strategy for all retailers continues to be the use of guards and detectives. In fact, the retailers polled said they are employing more guards and detectives today than they did five years ago. Eighty percent said they were using guards and detectives compared to 69% five years ago.

However, when asked to rate the effectiveness of the most-often-used loss-prevention devices/strategies, the respondents ranked guards and detectives fourth.

One of the most notable shifts, however, has been in the area of training programs, currently rated the most-effective loss-prevention strategy. Seventy-nine percent of the retailers polled currently use training programs to help stem shrinkage losses, compared to only 47% in 1982.

In addition, more retailers are turning to technology to help control shrinkage. For example, only 39% of the retailers said they used electronic/magnetic tags in 1982, compared to 59% today. Likewise, only 45% used electronic POS systems in 1982, compared to 72% today.

In terms of current effectiveness, the retailers ranked electronic/magnetic tags and POS systems second and third, respectively, after training programs. *(See Table 14)*

Devices Used in High-Shrinkage Departments

In ladies apparel, the department that suffered the highest-shrinkage losses, virtually all of the respondents used fitting room attendants to help combat the problem.

Following that, 72% of the retailers used observation booths, 62% electronic/magnetic tags and 60% employee guards/detectives to help protect ladies apparel. Interestingly, the participants rated fitting room attendants as one of the least effective ways to combat shrink.

In the second-ranked high-shrink department—radio, TV and phonograph—59% of those surveyed used concealed TV monitors, a device which they ranked as the fifth most effective. Following that, 52% used guards/detectives and 51% observation booths. *(See Table 15)*

V. Emerging Technologies

POS System Prevalence

As retailers increasingly seek ways in which computers can help reduce shrinkage losses, this survey analyzed the prevalence, capabilities and effectiveness of POS as an emerging loss-prevention technology.

As a group, 78% of this year's participants reported having POS systems in place. The highest prevalence was among the specialty store retailers: Eighty-seven percent said they had installed POS systems, compared to 77% of the department store retailers and 71% of the mass merchants. *(See Table 16)*

POS System Capabilities

More than half of the retailers polled (52%) said their POS equipment allowed them to do full price look-up. Additionally, approximately one-third of the group said they captured sales data at the front-end through bar coding.

More mass merchants (63%) had full price look-up capabilities than either department store retailers (37%) or specialty store chains (47%).

Similarly, the mass merchants led the other two market groups in the use of bar coding technology, with half of this group using the

Table 16 **Prevalence of Point-of-Sale Systems**

Table 17 **Point-of-Sale Capabilities**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Full Price Look-Up	63%	37%	47%	52%
Bar Coding	50	16	24	33
Neither	25	58	53	42

Table 18 **Implementation of Point-of-Sale Capabilities**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Pilot Store(s)	55%	50%	31%	47%
Full Implementation	41	50	56	47
Other	7	—	13	8

Table 19 **Results of Point-of-Sale Systems**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Yes, Favorable Shrinkage Results with New Technology	27%	29%	56%	38%
No, Shrinkage Results Not Impacted by New Technology	12	14	4	10
Don't Know	61	57	40	52

technology, compared to only 24% of the specialty stores and 16% of the department store retailers. *(See Table 17)*

POS Implementation

As a group, the retailers who used bar coding or full price look-up were evenly distributed in the way in which they implemented these systems in their stores.

Forty-seven percent of the participants implemented them in pilot stores, while another 47% installed them chainwide.

By market segment, the department store retailers were evenly split in how they were using these technologies. A greater percentage of the mass merchants (55%), however, reported they were testing these systems in pilot stores. *(See Table 18)*

New Technology Results

Understandably, it is extremely difficult for retailers to calculate the effectiveness of the loss-prevention technologies they have implemented to control shrinkage.

In fact, 52% of all those polled said they did not know the effect of the new technology. However, another 38% of the respondents could report favorable results. *(See Table 19)*

VI. Profiles

The Apprehended Thief

This year's survey takes a close look at the apprehended thief. According to the responding retailers, the overriding majority (89%) of their apprehensions were customers; only 11% were employees. This trend was consistent among the three market segments.

Of the customers apprehended, 52% were male and 48% were female. However, the apprehended employee was more likely to be female (54%) than male (46%). These figures were also consistent among each of the three market groups.

Of the apprehended customers, a greater percentage of these individuals (55%) were employed. Among the apprehended female customers, 51% were employed, versus 59% of the apprehended male customers.

With respect to age, 43% of the apprehended customers were under 18 years old; 35% were between 18 and 35 years, while only 22% were over 35.

Within these three age groups: A greater share of the apprehended shoplifters under the age of 18 were male; women predominated among apprehended shoplifters in the 18 to 35 and over 35-year old age groups.

Of the employees who were apprehended, however, the majority (61%) were between 18 and 35 years of age; 25% were under 18, and only 14% were over 35. *(See Tables 20 and 21)*

Here too, more male than female employees under the age of 18 were apprehended; similarly, more women employees were apprehended in the 18 to 35 and over 35-year old age groups.

Table 20 **Profile of Apprehended Employee**

	Male	Female	All
Total Apprehensions	46%	54%	—
Age:			
Under 18	27	23	25%
18 - 35	57	64	61
Over 35	15	13	14

Table 21 **Profile of Apprehended Customer**

	Male	Female	All
Total Apprehensions	52%	48%	—
Age:			
Under 18	43	35	43%
18 - 35	39	43	35
Over 35	18	22	22
Employment Status:			
Employed	59	51	55
Unemployed	41	49	45

The Corporate Security Head

For the first time, we took a closer look at the corporate head of loss prevention.

The vast majority of today's security and loss-prevention directors were men with extensive retailing backgrounds. According to those polled, 86% came from the retail industry, in contrast only 26% had police backgrounds, and just 17% were from the military.

Not only did most of these executives come from within retailing's ranks, they generally were in the industry for at least seven years. In fact, only 25% of the retailers polled said their corporate security heads had less than seven years of retail security experience. *(See Table 22)*

In most instances, the corporate security and loss-prevention head reported directly to the company president. This was the case for some 30% of the retailers polled. Approximately 24% reported directly to the chief financial officer/controller, while 17% reported to the chief operations officer. *(See Table 23)*

Approximately 35% of the participants' store level security heads reported directly to the store manager, while 31% reported to the regional or district loss-prevention manager. *(See Table 24)*

Table 22 **Profile of Corporate Security Head**

Years of Retail Experience:	
Less Than 3 Years	9%
3-5 Years	8
5-7 Years	8
More Than 7 Years	75
Gender:	
Male	96
Female	4
Previous Experience:	
Retail	86
Police	26
Military	17
Other	10

Store level security heads in mass merchandising organizations were more likely to report to regional loss-prevention managers than their specialty and department store counterparts.

When analyzing the corporate security head's activities, all respondents spent about 28% of their time on administrative duties; 23% on supervising operations, 22% on strategy/planning and 13% on managing employees. *(See Table 25)*

Table 23 **Corporate Reporting Hierarchy**

Corporate Security and Loss Prevention Head Reports to:	
President	30%
Chief Financial Officer/Controller	24
Chief Operations Officer	17
VP, Administration/ Human Resources	13
Other	21

Table 24 **Store-Level Reporting Structure**

Store Level Security and Loss Prevention Head Reports to:	
Store Manager	35%
Regional/District Loss Prevention Manager	31
Corporate Security Head	24
Other	15

Table 25 **Security Director's Activities**

Administration (Meetings, Paperwork)	28%
Supervising Operations	23
Strategy/Planning	22
Managing Employees	13
Seminars/Education	7
Court-Related Activities	2
Other	5

Mass Merchant Strategies

The Participants

The 56 mass merchandising companies participating in the study operated more than 33,500 stores and posted sales for fiscal 1987 that approached $94 billion.

Of the total mass merchandising respondents, only 18% fell into the low-shrinkage category (shrink estimated at 1% or less of sales) and 27% fell into the high-shrinkage group (estimated losses of 2.5% of sales or more). The rest reported shrinkage results between 1.1% and 2.4% of sales, with the market segment's average at 2.1% of sales.

In general, the low-shrinkage mass merchants tended to be smaller in size than the high-shrinkage chains, in terms of both sales volume and number of stores.

Whereas 60% of the low-shrink companies reported sales of less than $500 million, 47% of the high-shrinkage stores reported sales under $500. Similarly, 60% of the low-shrinkage mass merchandisers had less than 100 stores, while 73% of the high-shrinkage companies had over 100 stores.

Loss-Prevention Expenses

As a group, 83% of the total participating mass merchants spent less than .5% of their sales on loss-prevention. Of the mass merchants in the low-shrink category, 87% spent less than .5% of sales to combat the problem, compared to 92% of the high-shrinkage companies.

However, a greater percentage of the lower-shrinkage companies (13%) spent .5% or more on loss-prevention expenses compared to their high-shrink counterparts, with 8%. *(See Table 26)*

Table 26 **Mass Merchant Loss-Prevention Expenses as a Percentage of Sales**

	Low Shrink	High Shrink
< .1%	38%	—
.1% - .24%	13	50%
.25% - .49%	36	42
> .5%	13	8

Table 27 **Mass Merchant Security Device Usage**

	Low Shrink	High Shrink
Guards/Detectives	80%	87%
Lock & Chain	80	53
Point-of-Sale Systems	80	67
Training Programs	80	80
Limited Access Areas	70	53
Concealed TV Monitors	60	53
Mirrors	60	67
Observation Booths	60	27
Visible TV Monitors	50	53
Electronic/Magnetic Tags	40	60
Fitting Room Attendants	30	7

Shrinkage Control Policies

According to the majority of low-shrinkage mass merchants, the radio, television and phonograph department was the area most vulnerable to shrink. However, the high-shrinkage respondents named health and beauty aids as their highest-shrink department.

In direct contrast, the low-shrinkage mass merchandising firms indicated health and beauty aids was one of their lowest-shrink departments.

To help control shrink, the low- and high-shrinkage mass merchants polled were most likely to use the following four devices: guards/detectives, training programs, POS systems, and lock and chain. Interestingly, a greater percentage of the high-shrink mass merchants (87%) employed guards/detectives than the low-shrink companies, with 80%. *(See Table 27)*

Technology Usage

As a group, 71% of the mass merchandising participants said they had installed POS systems. Of the low-shrink firms responding,

80% had POS systems in place, compared to 67% of the high-shrinkage chains.

Sixty-seven percent of the low-shrinkage mass merchants reported their POS systems allowed them to do full price look-up, compared to 60% of the high-shrinkage firms. *(See Table 28)*

Table 28 **Mass Merchant Technology Usage**

	Low Shrink	High Shrink
Use POS	80%	67%
Capabilities of POS		
Bar Coding	33	30
Full Price Look-Up	67	60
Neither	33	40

Conversely, 40% of the high-shrinkage mass merchants indicated they could not do full-price look-up, compared to 33% of the low-shrink retailers.

Profile of the Apprehended Customer and Employee

As a group, the mass merchants polled reported that among the customers apprehended for shoplifting about 44% were under age 18. Among the low-shrink companies, 50% were under 18, compared to 34% of the high-shrink chains.

A greater percentage of the high-shrink mass merchants reported apprehending customers over 35 years of age than the low-shrinkage group—30% compared to 19%.

The majority of apprehended employees in both the low- and high-shrink groups were between 18 and 35 years of age. In the low-shrinkage group, the ratio among apprehended employees and customers was split evenly between male and female offenders. However, among the high-shrinkage mass merchants there was a slightly greater percentage of females apprehended, with 56% of the apprehended customers and 54% of the apprehended employees reportedly women. *(See Table 29)*

Profile of the Corporate Security Head

Virtually all of the low-shrinkage mass merchants reported their corporate security heads had retailing backgrounds in comparison to 92% of the high-shrinkage companies. In addition, among the low-shrink chains there were fewer individuals in this position with military backgrounds (11%) compared to 23% for the high-shrinkage companies.

A slightly greater percentage (84%) of the security heads in the high-shrinkage mass market chains had at least seven years of retailing experience than their low-shrink counterparts, with 78%.

Table 29 **Profile of the Apprehended Mass Merchant Customer and Employee**

	Low Shrink		High Shrink	
Apprehensions	Customers	Employees	Customers	Employees
Age:				
Under 18	50%	19%	34%	36%
18 - 35	31	58	36	51
Over 35	19	23	30	13
Sex:				
Male	51	49	44	46
Female	49	51	56	54

Total Team Effort Boosts Bottom Line Profits At Ames Department Stores

by Jack L. Hayes
President
Jack L. Hayes International

The mass market has been steadily consolidating for the last five years: Mergers and acquisitions as well as business failures have gradually placed the operation of most of the country's general merchandise stores in the hands of a few retail giants.

Ames Department Stores of Rocky Hill, Connecticut typifies the period.

Five years ago, Ames Department Stores was a regional discounter with sales of about $647 million. In 1985, it acquired the G.C. Murphy discount and variety store chain; the move nearly doubled Ames sales and store count making them a $1.5 billion operation with 340 stores in 20 states. The company further accelerated its growth by launching several new specialty store concepts, including an office supply discounter.

Then earlier this year, Ames announced its plan to buy the troubled 368 discount store division of Zayre Corp. That acquisition makes Ames a $5.5 billion company, the third largest in the industry behind K mart and Wal-Mart.

The move is particularly bold given that Ames has barely finished absorbing the Murphy stores—a process which cost the discounter millions of dollars in inventory losses before it was completed.

However, quick response by top management stemmed the losses: Systems were analyzed and revamped; records audited, and stores refurbished. Within months, their efforts were making an impact on the bottom line.

Early in the process, senior management called in Jack Hayes, President of Jack L. Hayes International, a security and loss-prevention consulting firm.

The following story chronicles some of Jack's experiences working with the New England-based chain.

We've all heard or read about the positive impact that employee involvement plays in reducing inventory shrinkage. But just how many of us have really had the privilege of seeing true team effort in action company wide? Well, just a few short months ago, I did!

Unfortunately, the inception of this program was brought about after a high volume mass merchandising chain suffered a severe increase in inventory shrinkage in their January 1987 results.

At first, immediate reactions were that significant theft had most likely occurred within the distribution process since so many stores were affected. Consultants and investigators of all types, including our firm, were hired to assist in identifying the source(s) responsible.

Our firm's initial project was to conduct an extensive investigative audit of the company's distribution and transfer paper systems' process in order to uncover any evidence of massive and/or collusive theft.

During our start-up briefing meetings, we noted that the company's senior management team had already begun to develop and imple-

ment a comprehensive series of effective in-house strategies and programs to identify areas where losses could occur.

These programs and strategies covered the gamut, not only focusing on loss-prevention and security issues, but also on operations, merchandising MIS, POS, markdowns and almost everywhere that losses could occur.

We also found the human element side of shrinkage control was being equally addressed. Without exception, every single manager and employee we met with expressed sincere concern and interest in having the source(s) responsible for this extraordinary shrinkage uncovered.

While we did not discover any evidence of either massive and/or collusive theft during our auditing process, our consulting team did identify an amount of paper-related concerns. Perhaps it was our addressing of these concerns that provided us with our greatest view of the team effort process in action.

As we uncovered paper systems problems in the MIS, store, merchandising and vendor areas, we found that each area took immediate corrective actions, and didn't wait around for someone else to correct a situation.

First, we found some mix-ups in the "retail bookings" of certain merchandise. As problems were identified, we met with the merchandise buyers to confirm the accuracy of our findings. We found that those same buyers reported back to us that day or the next morning, with a list of corrective actions that had been taken. Loss-prevention personnel quickly followed up with store information/data.

Now that I've laid a little of the groundwork, let's look at my perceptions as to how the total, team-effort attitude evolved.

First, the commitment started at the top. From the chairman on down, senior management was actively involved. Next, this same strong commitment and positive attitude had filtered down to every level of employee working in the stores, DC's and home office. Here a great deal of the credit must be given to loss prevention, facility, store and home office middle management and supervisory personnel. The problem had been presented, and every employee's help was requested.

Next, as previously mentioned, critical concerns and issues were quickly addressed and corrected. Shrinkage control had truly become not only everyone's responsibility, but also a primary concern.

The accomplishments were truly amazing, and they were primarily brought about as a result of several thousand employees all focusing on one critical problem, then pulling in the same direction toward rectifying its cause.

With efforts like this, the end result had to be positive. At year end, this company posted improved inventory shrinkage results of .4% better than their anticipated goal.

I've been in this business for 25 years, and it's the first time that I have witnessed such a total team-effort process! Our hats are off to the total team at Ames Department Stores. They certainly proved what a group of caring people can do in a very short amount of time.

The Participants

This year's survey included the responses of 22 department store retailers. Together, they operated more than 4,200 stores and reported 1987 sales of $18.9 billion.

Of the total department store participants, 14% fell into the low-shrinkage category, and 23% fell into the high-shrinkage group. In the study, low-shrinkage was defined as losses estimated at 1.5% of sales or less, and high-shrinkage as losses of 2.5% of sales or more. The majority of department store retailers fell in between, with the average at 2.1% of sales.

In general, the low-shrink department store chains were smaller in both sales and number of units than their high-shrinkage counterparts. Whereas 67% of the low-shrink companies reported 1987 sales of $99 million or less, 60% of the high-shrink chains posted sales between $100 and $499 million.

Loss-Prevention Expenses

As a group, half of the study's department store participants spent less than .5% of their sales on loss prevention. Looking at only the low-shrinkage companies, however, all of them spent less than .5% of sales to fight shrink. Ironically, all of the high-shrinkage companies spent more than .5% to control these losses. *(See Table 30)*

The high-shrinkage department store retailers allocated a substantially greater percentage of their loss-prevention funds on payroll for loss-prevention employees and employee guards than the low-shrink firms—75% of expenses as opposed to 41%.

The low-shrink retailers allocated 23% of these funds on EAS equipment compared to the high-shrink companies, with 15%.

Shrinkage Control Policies

According to both the low- and high-shrinkage department store respondents, ladies apparel was this market segment's single most vulnerable shrinkage department.

The low-shrinkage group reported that the selling floor was the place where they believed most employee theft occurred. However, the high-shrink department store chains named the point-of-sale as the most likely place for employee theft.

Among the department store respondents, the high- and low-shrinkage companies placed markedly different degrees of emphasis upon the various kinds of loss-prevention devices.

For example, nearly all of the high-shrink chains used guards/detectives while none of the low-shrink department stores reported their usage. Also, less than half of the low-shrink companies reported having training programs, compared to essentially all of the high-shrinkage chains. *(See Table 31)*

Table 30 **Department Store Loss-Prevention Expenses as a Percentage of Sales**

	Low Shrink	High Shrink
< .1%	50%	—
.1% - .24%	50	—
.25% - .49%	—	—
> .5%	—	100%

Table 31 **Department Store Security Device Usage**

	Low Shrink	High Shrink
Lock & Chain	100%	100%
Mirrors	67	80
Point-of-Sale Systems	67	60
Electronic/Magnetic Tags	33	80
Limited Access Areas	33	80
Observation Booths	33	60
Training Programs	33	100
Concealed TV Monitors	—	60
Fitting Room Attendants	—	80
Guards/Detectives	—	100
Visible TV Monitors	—	60

Table 32 Department Store Technology Usage		
	Low Shrink	High Shrink
Use POS	33%	60%
Capabilities of POS		
Bar Coding	—	—
Full Price Look-Up	50	—
Neither	50	100

The high-shrinkage respondents named training programs as the most effective device. They agreed mirrors were the least effective loss-prevention device.

Technology Usage

As a group, 77% of the participating department store retailers reported having POS systems in place. Of the responding low-shrinkage companies, only 33% had installed systems, compared to 60% of the high-shrinkage companies.

However, despite the high-shrinkage companies' tendency to have this technology, essentially none of these retailers had the capability to do full price look-up. In contrast, 50% of the low-shrink companies could. *(See Table 32)*

Profile of the Apprehended Customer and Employee

As a group, the department store retailers polled reported that among the customers apprehended for shoplifting some 46% were under 18. Interestingly, among the low-shrink chains only 21% were under 18, compared to 45% of the high-shrink retailers. The majority of the customers apprehended in the low-shrink stores (77%) were between the ages of 18 and 35, compared to 42% in the high-shrinkage chains.

In the low-shrink department stores, an overwhelming majority (80%) of the apprehended customers were female. However, among the high-shrink companies the percentage of apprehended customers was more evenly divided — 46% male, 54% female. *(See Table 33)*

Profile of the Corporate Security Head

In the high- and low-shrinkage department store groups, over 65% of the respondents said the corporate security head came from a retail background. The majority of these individuals were retail veterans of at least seven years, and all of them were men.

Among the low-shrink department stores, 33% of these people reported directly to the company president and 33% reported to the chief financial officer. The high-shrinkage companies said that the majority (40%) of their corporate security heads reported directly to the chief financial officer.

Table 33 Profile of the Apprehended Department Store Customer and Employee				
	Low Shrink		High Shrink	
Apprehensions	Customers	Employees	Customers	Employees
Age:				
Under 18	21%	27%	45%	11%
18 - 35	77	62	42	69
Over 35	2	11	13	20
Sex:				
Male	20	51	46	32
Female	80	49	54	68

Shortage Control at Marshall Field's Integrates Service and Systems

Lewis Shealy, V.P. Loss Prevention, Marshall Field's

Shopping. It's as American as baseball, and possibly the most popular of all American pastimes.

Shopping's new leisure-time status doesn't come cheaply, however. As Americans spend more of their time in stores and malls—so does the new breed of shoplifter. Like smart consumers and bargain hunters, professional shoplifters today are zeroing-in on better-priced goods, especially those sporting designer labels or top quality brand names.

By some estimates, 50% of retail shortages today occur in women's wear. Particularly hard hit are department store floors featuring designer-labeled ready-to-wear, junior sportswear, and outerwear.

Retailers say the problem has gotten worse as they have upgraded assortments to keep pace with evolving consumer taste levels. In addition, they note, the better quality imports they brought in to create merchandise excitement—and to bolster bottom line performance—are also being targeted by thieves.

Chicago-based Marshall Field's is one chain that's fighting back, aggressively. In 1983, shrinkage cost the retailer 3% of its annual sales. By 1987, those losses had been pared to 2% of annual sales; this fiscal year, the company plans to cut shrink to 1.9% of sales—which are expected to top $1 billion.

Looking ahead, management vows to slash shrinkage losses even further, to 1.5% of sales by 1992.

To reach their goals, management was willing to set aside conventional shrink control wisdom. Their clean slate approach allowed them to find innovative solutions, and significant savings.

We recently spoke with Lew Shealy, head of the now 25-unit chain's security and loss prevention department, and the man he reports to directly, Burnett Donoho, Field's President.

Shoplifting has changed as much as the retail industry has over the last 10 years. In his office in Field's flagship store in the Chicago Loop, in the wing of offices reserved for senior management, Lew Shealy, Vice President of Loss Prevention, chronicled the changes.

"In the 1970s, electronics items were the most sought after by shoplifters," the retail veteran said. "Calculators were the number one item."

But back then (when he was with Woodward and Lothrop), "there were no security devices in the market to protect those goods." That was one of the reasons retailers embraced electronic article surveillance (EAS) systems so quickly. And so completely.

"We all said 'this is the way to go.' " Shealy recalled the trade association meeting where an EAS endorsement consensus was quickly reached. It was fairly simple: EAS worked.

Today, five years after his move to Field's, Shealy thinks retailers paid too big a price: "We all got suckered (into EAS). We only heard the success stories. Nobody analyzed it."

In 1982, Marshall Field's began EAS-tagging merchandise for all of its stores. Unlike most other retailers who tag goods at store level, Field's centralized the process to insure 100% compliance with its policy of tagging every apparel item retailing for over $25. Centralization also allowed the retailer to keep track of costs.

"Generally, when you tag goods at store level, only 80% to 90% of the goods are in compliance." This is a practice, Shealy said, thieves count on. "They'll search until they find untagged merchandise."

After five years, management found its EAS tab was costing the company almost $1 million

a year—in labor, equipment and tag replacement costs. By then, they also knew the average life-span of a tag was five years; that each replacement tag cost $1.25.

Amazingly, Shealy said: "No one [in the industry] ever suggested attacking the problem by setting shortage goals at store level, or through the merchandise division. No one tried to get some commitment to shrink control through awareness programs."

The company began analyzing its loss-prevention expenses in 1984, following a management reorganization.

Among the changes made from 1984 to 1986: 50 full-time security positions were eliminated, even as six new stores were being opened. "Most people want to pump money into security," Shealy said. "They think if they get more apprehensions they've solved their problem. We think a well-rounded program is the answer." So Shealy and his staff began to search for new ways to pare down loss-prevention expenses.

By spring 1987, they were ready to take a close look at their six-figure EAS budget. In a controversial test move, the chain removed all EAS tags in eight suburban Chicago stores: Park Forest, Woodfield, Cherryvale, Joliet, Springhill, Stratford and Oak Brook, Ill. and Mayfair, Wisc. They then concentrated on improving paperwork controls and raising employee shrinkage awareness.

However, in July, when the chain conducted its mid-year inventory it found shrink had increased in women's apparel in the Oak Brook and Woodfield stores.

Because the annual sales volume—in the $70 million to $80 million range—and customer demographics were the same at both stores, the two units became the control group for the experiment.

"We went back and re-tagged everything in Oak Brook," Shealy said.

Woodfield's merchandise remained untagged, and management threw its full support behind the shortage awareness program.

"We really zeroed-in on women's wear," Shealy explained. "We held in-store meetings with all store associates and management on a weekly and monthly basis." In addition, Shealy said, "Bernie Donoho made it his 'home' store, and went to all of their monthly shortage meetings."

Senior management stayed in close touch: "The Woodfield managers came to headquarters and made a presentation to our executive shortage committee, and the store's general manager came in every month to tell us what they were going to do. But they couldn't just tell us. They had to submit formal written plans."

Corporate didn't stop there. They asked the store's managers to find new solutions for their paperwork problems, including recording price changes. "We did extra audits and retrained all department managers in paper controls," Shealy said.

Senior management also sent in a "flying squad" to check for special shoplifting problems.

When they took inventory again, in early 1988, they found shrink was the same in the Oak Brook and Woodfield "control" stores: just over 2% of sales.

Results at the other stores where the EAS tags were removed varied: Shrink was down at the Park Forest and Stratford stores; Cherryvale showed no change, and shrink was up slightly at Springhill and Joliet. Although, in Joliet, shrink declined in the women's apparel area. In all, the test told management there was a place for EAS—but that like any other strategy, it must be managed.

To further study the problem, Field's retagged the merchandise this spring in seven high-shrink apparel departments including Polo, Liz Claiborne, Liz Claiborne Collectibles, Liz Wear, Guess and junior separates. "These are all departments where the overall shortage was

higher than the store average," Shealy explained.

Additionally, the chain increased staffing in one of its high-shrink Polo departments. That move, in the Mayfair, Ill. store, helped them cut shrink from 12% to 6% of sales over a six month period; sales during the period increased by 5%.

A similar test was conducted in the Liz Claiborne department in the Orland Square, Ill. store. Shrink in that department went from 9.5% of sales in spring 1987 to 7% by fall; sales increased 37% over the course of the year.

These staffing tests continued through this year. The chain will make a final decision on whether to increase staffing levels, or resume EAS tagging in the fall. Until then, Shealy said, management will keep accumulating data to support long-range decisions.

While management is pleased with its efforts to date—payroll and expenses for Field's risk management, loss-prevention and shortage control programs were pared to .53% of sales last fiscal year—their work is not done.

Looking ahead, Shealy expects the chain's loss-prevention programs to benefit from the automatic price look up (APLU) system Field's will begin to install in fall 1989. Currently, 60% of the retailer's price changes are done manually. And policies and procedures will continue to be reviewed for potential savings. For example, the chain no longer conducts chainwide inventory twice a year. "A physical inventory costs us $750,000," Shealy explained. Today only 60% of the departments participate in mid-year inventory for a saving of several hundred thousand dollars. "Shrink in cosmetics is only .70%." he said, "so we inventory it once a year." If that changes, management would address the problem right away.

Similarly, the retailer now does register balances in the cash office, not on the sales floor. That move gave the chain better control—and more importantly, freed cashiers to work with customers.

The View from the Top: Interview with Burnett Donoho

Burnett Donoho, President, Marshall Field's

Burnett Donoho, President of Marshall Field's, knows people make the difference between success and failure at every level of the organization.

Since joining Field's in 1984, he has helped lead a company-wide restructuring that has addressed both formal systems and more intangible business factors like morale and corporate culture—all of which dramatically impact the bottom line.

AY: Please describe Field's approach to loss prevention, and how you came to make the policy changes Lew Shealy described?

BD: Our approach to loss prevention—whether in shortage control, public liability or workers' compensation—is to get our people involved.

Retailers have a lot of people out there where the goods are. Yet instead of allowing them to be the standard bearers of good customer service, which includes store security, we burden them with other things, like tags. Putting them on and taking them off. Or checking merchandise. These responsibilities detract from their being better sales associates.

We believe if we can find ways to free our people from some of these chores, they can focus on selling the merchandise. That's why we are removing stores from the EAS program, and why we no longer check in new merchandise receipts in our stores.

AY: What does that have to do with store security?

BD: If we educate the sales force to understand that poor security can hurt the bottom line, they'll watch the customers—and even each other. That's not making them the Gestapo. But it's a fact that we have some dishonest customers and employees.

The people on the sales floor are the ones who can tell you where you're doing a bad job. They're where the rubber hits the road.

Who says you can't do security through your people? Why can't they be the security force? Too often retailers abdicate responsibility when they put (EAS) tags into a store.

AY: Don't you increase your exposure to loss if you free your sales staff from tagging and checking merchandise?

BD: I think checking merchandise on the sales floor can be the biggest waste of time in most departments. People like to finish what they start, so they don't tear themselves away to help a customer.

Ninety-seven percent of our merchandise goes through our distribution center. Where we check in every piece of merchandise on the processing floor where it can be done uninhibitedly, and not in the stores. Eighty-five percent of the goods arriving at the stores aren't checked in. We don't even let them reconcile records on the sales floor because we don't want them checking merchandise. We want them with the customer.

Our rate of error has been less than .1% because of our control policies: We select several stores each year, and check in their new receipts, from 14 to up to 30 days. This is done to determine the accuracy of our distribution center's processing of new receipts.

We also have other checks and balances, like random checks on our trucks. We'll pull them over on the highway, break the seal and check the load.

AY: Some retailers might say you've taken too much responsibility away from your sales people.

BD: I believe the shortage battle is won on the sales floor of the suburban stores.

And I'm virtually convinced a suburban store doesn't need EAS tags. We never used them when I was at Gimbel's Midwest, and over a three year period (1982-1984) we got shrink down to between 1.1% and 1.3% of sales.

AY: What systems or goal programs do you use?

BD: Every one of our department managers has a shortage objective for spring and fall that they are rated on. It's not unusual for retailers to rate managers on shortage results, but it is unusual to have shortage objectives.

AY: Do you also use incentives?

BD: Yes. We started using incentives in our stores in 1985, for example. Lew Shealy convinced me that we should offer $500 rewards for tips on co-worker dishonesty. In 1986 and in 1987 we gave away about $120,000. I expect to see that amount start to come down now.

AY: What's the biggest barrier to effective shrinkage control?

BD: The problem with shrink is that it's hard to stick with it. Improvements don't happen overnight. You have to stick with it for three, four or five years to show change, and you must constantly let people know you're serious about it. You also must have dedicated people like Lew Shealy and his staff who will take the ball and run with it.

The Participants

This year, 41 specialty store retailers participated in the study. With more than 9,598 locations, as a group, 1987 sales approached the $15 billion mark.

Of the total specialty store participants, 18% fell into the low-shrinkage category as opposed to 36% with high-shrink results. Low-shrinkage was defined as losses of approximately 1% of sales or less, and high-shrinkage as losses totaling 2.5% of sales or more. Less than half of the specialty chains had shrinkage results ranging from 1.1% to 2.4% of sales. The market segment's average was 2.2%.

In general, the low-shrink specialty chains were smaller in size—sales volume and number of units—than their high-shrink counterparts. For example, 86% of the low-shrink companies posted 1987 sales under $100 million, compared to 36% of the high-shrink specialty chains.

In the specialty store market segment, 43% of the low-shrink companies reported that all of their stores were located in urban markets. Conversely, another 29% of the low-shrink companies noted that all stores were in suburban markets.

Loss-Prevention Expenses

As a group, 76% of the participating specialty store retailers spent less than .5% of sales on loss prevention. All of the specialty store operators in the low-shrink group spent less than .5% of sales to fight shrink, compared to 64% of the high-shrink retailers. *(See Table 34)*

Among the low-shrink specialty chains, 23% of the loss-prevention expenses were allocated to payroll for loss-prevention employees and employee guards. In contrast, 34% of the high-shrinkage chains used funds for that purpose.

Table 34 **Specialty Store Loss-Prevention Expenses as a Percentage of Sales**

	Low Shrink	High Shrink
< .1%	29%	9%
.1% - .24%	42	18
.25% - .49%	29	37
> .5%	—	36

Shrinkage Control Policies

According to the specialty store operators in the low-shrink category, the five departments with the highest shrink were: radio, television and phonographs; records, cassettes and videos; fine jewelry; toys, hobbies and games and men's apparel. However, the high-shrink retailers in this market segment cited ladies apparel as their most vulnerable department.

The specialty store respondents said they believed most employee theft took place at the point-of-sale. In fact, 39% of the high-shrink companies named the point-of-sale as compared to 28% of the low-shrink specialty chains.

The top two loss-prevention devices used in both high- and low-shrinkage specialty operations were: training programs and POS systems. The percentages of companies using these devices was similar in both groups. *(See Table 35)*

Technology Usage

As a group, 87% of the specialty store retailers responding to the survey indicated having POS systems in place. Of the responding low-shrinkage retailers, 86% had installed systems, compared to 79% of the high-shrink chains.

A very high percentage (83%) of the low-shrinkage specialty retailers reported having

Table 35 **Specialty Store Security Device Usage**

	Low Shrink	High Shrink
Point-of-Sale Systems	86%	79%
Training Programs	86	79
Guards/Detectives	71	64
Limited Access Areas	71	50
Mirrors	43	71
Concealed TV Monitors	29	43
Lock & Chain	29	79
Visible TV Monitors	29	29
Electronic/Magnetic Tags	—	64
Fitting Room Attendants	—	21
Observation Booths	—	36

the capability to perform full price look-up. In contrast, only 27% of the high- shrinkage companies had that capability. In addition, 33% of the low-shrinkage companies could capture sales data at the point-of-sale through bar coding, compared to virtually none of the high-shrink chains. *(See Table 36)*

Table 36 **Specialty Store Technology Usage**

	Low Shrink	High Shrink
Use POS	86%	79%
Capabilities of POS		
Bar Coding	33	—
Full Price Look-Up	83	27
Neither	17	73

Profile of the Apprehended Customer

According to all of the specialty store participants, almost half of the apprehended customers were 18 to 35 years of age. Among the low-shrinkage specialty chains, 33% of the apprehended customers were in this age group, and 50% apprehended by the high-shrink retailers.

Similarly, a majority of the employees apprehended for shoplifting fell into the 18-35 age group—both at the low- and high- shrinkage firms.

Among the low-shrink specialty chains, a much greater percentage of the customers apprehended were male—83%, compared to 17% female. The same was true in this group for the employees apprehended, with 66% male versus 34% female.

In the high-shrink companies the male to female ratio for both apprehended customers and employees was divided fairly evenly between males and females. *(See Table 37)*

Profile of the Corporate Security Head

More than twice as many of the high-shrinkage specialty chains reported that their corporate security heads had retail backgrounds—92% compared to 50% of the low-shrinkage firms.

In addition, 85% of the high-shrinkage companies stated these individuals had at least five years in the industry, compared to 50% of the low-shrink chains.

Table 37 **Profile of the Apprehended Specialty Store Customer and Employee**

	Low Shrink		High Shrink	
Apprehensions	Customers	Employees	Customers	Employees
Age:				
Under 18	57%	42%	27%	10%
18 - 35	33	48	50	76
Over 35	10	10	23	14
Sex:				
Male	83	66	51	48
Female	17	34	49	52

Office World: Start-Up Chain Creates Loss-Prevention Strategy

Wayne Colley, Exec. V.P., COO Office World

When entrepreneurs launch a new retail organization, shrinkage control is an issue that demands immediate attention.

However, resources are limited, manpower may be short, margins, at least for the first few years, are tight, and sales are the top priority. Additionally, there is no inventory track record upon which to base a strategy.

In spring 1989, Great Neck, New York-based Office World will celebrate the anniversary of its first store opening and the planned debut of its sixth Chicago store. Slated for rapid growth, the retailer currently operates stores only in the Chicago market; they plan to open in two new cities by mid-1989.

However, when it comes to loss prevention, Office World is more than a retailing newcomer; it is also a new chain on a relatively new, specialty retailing block: deeply discounted office supplies.

With no track record of its own and little market niche history to draw upon, the company faces a unique challenge.

Executive Vice President and Chief Operating Officer Wayne Colley recently described Office World's approach to inventory shrinkage.

"With built-in hiring limitations at the executive level, one of the company's first steps was to bring in a local loss-prevention consulting firm," Colley said.

"That way someone knowledgeable was looking over our shoulder eight to ten hours a week, and making sure we were doing things right," he explained. More recently, Office World hired a loss-prevention manager who reports directly to Colley.

The consultants helped Office World set an achievable first-year shrinkage goal of 2% of sales. Colley said this figure was based on discount store industry averages and shrink estimates Office World executives made about their competitors. The relatively compact size and open layout of Office World's stores—ranging from 20,000 to 25,000 square feet—is also helping them reach their goal. In year two, shrink objectives will be tighter, Colley said.

Colley also noted that Office World's customer base helps keep shrinkage low:

"Few kids shop here. Our target customers are professionals whose careers would be jeopardized if they were caught shoplifting."

Still, the stores are admittedly vulnerable to customer and employee theft—a greater potential problem. Currently, there are no security tags on merchandise, no guards or detectives. The principle loss-prevention equipment in each store are oscillating box cameras.

Office World also has turnstiles at the exits, and it keeps higher ticket business machines—calculators and typewriters—and expensive pen sets in locked showcases.

Employee training and a shrink awareness program also play a key loss-prevention role.

Currently, store managers' bonuses are not directly tied to shrinkage levels. The manager's ability to control shrinkage will become more important in the company's second and third years, according to Colley. Much of the goal setting will come from the new security director. After an extensive training period, to give him a close look at every aspect of the operation, he will review all policy and procedure manuals. Eventually, he will develop a loss-prevention audit program for the store management team; supervise all alarm and armored car bidding and contracts; oversee daily management of bad check and credit card losses; monitor register overages and shortages (in excess of $10); conduct all internal investigations, and run training programs.

Tiffany: Carriage Trade Retailer Controls Shrink With Training and Attention to Detail

Tiffany & Co. The name stands for elegance and a long tradition of carriage trade retailing. But in this age of retail specialization, the Fifth Avenue institution is a growing—now publicly held—multi-faceted retailer reaching its target customers through nine U.S. stores, an aggressive direct marketing division, and an expanding network of outlets in Europe and the Far East. Sales last fiscal year totalled more than $230 million, up 26% from a year earlier.

We recently spoke with Tiffany's Director of Security James Burger about the loss-prevention challenges facing one of the country's pre-eminent jewelry retailers.

Say Tiffany and store security and Hollywood-inspired images of holdups and terrified customers spring to mind.

While there's always a threat of armed robbery, Burger said it's not a paramount concern as long as procedures are followed.

In fact, "we have minimal exposure to shoplifting. We're more likely to get a professional who tries to switch goods on us."

As for after hours break-ins, Burger said "these are the easiest to control with physical restraints, alarms and construction."

The biggest cause of merchandise loss, he said, is employee negligence.

"Our merchandise isn't sitting out on racks, or being taken into a fitting room. For us to make a sale, the customer must be serviced."

On-going training is the key: "We want to make our people aware of the types of situations that can happen."

Situations are very much one-on-one. He described a common scenario: Thieves working in pairs or trios confront a single salesperson. One of the group distracts the clerk; another pockets the merchandise.

"We get very few typical shoplifters. We get professionals who can beat an EAS system, or a store detective. But if they can't beat our salespeople, they can't win—and they move on."

Internal theft poses a much bigger threat to the business. "The temptation for our people is tremendous," Burger stated.

Like other retailers, Tiffany relies on part-time employees. But sharply curtailed store hours (10:00 a.m. to 5:30 p.m.) and six-day weeks ease some of the pressure. On the other hand, Tiffany sales clerks need extensive product knowledge to do their jobs effectively; thus the average hourly worker is unlikely to even qualify for a job.

And then there's the technology: In addition to alarms, vaults and gates a storewide closed-circuit TV network allows Burger and his staff to watch employees and customers anywhere—from vault to sales counter—in the building. This surveillance takes place in the security office, located just inside the employee entrance to the store. From the control panel of a bank of TV monitors filling one wall of the office, Burger's staff can train a camera on a suspicious looking customer crossing the main floor or watch the hands of an employee in an upstairs stockroom counting watches.

Soon, Burger said, Tiffany will integrate its alarms, surveillance cameras and employee ID card access systems. "If an alarm goes off, the closest camera will go on. Likewise, if an employee tries to use an unauthorized ID card in a restricted area, a camera will start to roll." All unauthorized attempts will also be recorded.

The retailer will also keep track—via the computerized ID cards—of which employees have handled certain big ticket items.

But at the heart of store security are operating procedures that, among other things, call for repeated merchandise counts. "It becomes a matter of checks and balances," Burger said. Thus, diamonds are counted daily. So are certain high-priced items, and watches over a set dollar amount.

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